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SUBJECT: SUEZ CANAL ENJOYS RECORD YEAR, PLANS AHEAD

Classified By: CDA Stuart E. Jones for reasons 1.4 (b) and (d)

Summary

[1](#)1. (SBU) Egypt's Suez Canal revenues will reach record levels for 2006, and sustained high energy prices and ever-increasing Chinese container traffic to the U.S. and Europe bode well for the strategic waterway's near future. Completion of an ongoing dredging program in 2007 will facilitate greater petroleum shipments (VLCC's) through the canal, further boosting the Suez Canal Authority's efforts to woo foreign port authorities and governments to increase trade flows. End summary.

Record Revenues

[1](#)2. (U) Record revenues for 2006 are adding cheer to Egypt's celebration of the 50th anniversary of the nationalization of the Suez Canal. The canal generated USD 3.2 billion in the first 10 months of 2006, an increase of USD 400 million over the same period last year. Suez Canal Authority (SCA) estimates place overall 2005 revenues at USD 4.1 billion and anticipate 2006 revenues to exceed USD 5 billion. Receipts have more than doubled over the last four years. The Suez Canal is the third-largest source of revenue for Egypt, following tourism and remittances from Egyptians working abroad, and a key driver of economic growth.

[1](#)3. (U) Analysts point to several factors influencing the 190 km canal's increased traffic and revenues, namely sustained high oil prices and mushrooming container flows from China. The canal's strategic location affords Asian exporters a cost-effective link to European and American consumer markets, and the development of modern, private-sector container handling facilities, such as Maersk's Suez Canal Container Terminal in East Port Said, enhance Egypt's attractiveness as a container trans-shipment hub. The canal's proximity to Middle Eastern oil and Liquefied Natural Gas (LNG) producers makes it an attractive -- and strategic -- link to world markets.

Looking Ahead

14. (C) In recent meetings with the DCM and other Embassy officials, SCA Chairman Ahmed Ali Fadel outlined his plans to boost near-term revenues and ensure the canal's long-term competitiveness. The Chairman said the canal's current dredging program, which will bring the depth to a uniform 66 feet, should be completed in 2007. While he had expected to complete it by the end of 2006, the increase in ship traffic within the last year pushed the completion date into 2007. With the canal already capable of handling 99 percent of the world's container ships, he said the SCA has the luxury of taking its time to properly complete the dredging.

15. (C) As deepening the canal increases its ability to handle petroleum and LNG ships, there is incentive to keep the current project moving, though. Currently, Very Large Crude Carrier (VLCC) tankers must offload up to one-quarter of their cargo prior to entering the canal. The completion of the dredging program will allow VLCC's to transit the canal unimpeded. To further take advantage of the petroleum trade, the SCA has draft plans for a further dredging of the canal to 72 feet by 2010-12, although the Chairman said they are undecided about whether the marginal benefit will justify the cost of the operation. (Comment: Based on conversations with SCA officials, Post feels the SCA will likely pursue the 72 feet plan. End comment.) The canal is currently handling on average 55 ships per day. The SCA believes that, in the absence of dredgers in the channel or other holdups, the canal could accommodate up to 85 - 90 ships per day.

16. (C) Under sustained high energy prices and growing demand, the SCA is planning to increase tariffs for 2007. The SCA has not announced the percentage increase, but SCA officials told Emboff that they expected the increase to be around 7 percent. During a December 5 meeting with the DCM, Chairman Fadel said he expected to announce the increase sometime in December, although SCA sources tell us the announcement may be delayed until around January 1. The SCA is also planning to introduce a new edition of the "Rules of Navigation" for the canal within the same time period. The last update to the volume was published in 1995.

Strategic Relationships

17. (U) The SCA is seeking to encourage container flows through the canal through agreements with foreign port authorities and governments. In early December, the SCA signed an MOU with the Maryland Port Authority (MPA) to share commercial information and promote the movement of cargo from the Suez Canal to the Port of Baltimore. The MOU opens the way for the MPA and SCA to undertake joint marketing efforts, share trade flow forecasting data, and exchange information on training.

18. (U) The SCA has also announced that the GOE is pursuing a tripartite agreement between Egypt, Italy, and China to facilitate Chinese container traffic flows through the canal to the southern Italian port of Gioia Tauro. News reports quoted SCA Advisor Galal al Deeb as saying that the Gioia Tauro port receives nearly 60 percent of Chinese containers bound for Europe. Al Deeb also said that the SCA would not provide discounts for Chinese shippers, but hinted that the Egyptian Ministry of Finance may provide "tariff incentives" to encourage the trade flows. According to the SCA, Chinese cargo ships accounted for 14.2 percent of all traffic in the past fiscal year.

Visa Issues

19. (SBU) When asked about ways we could increase the already strong cooperation between the USG and the SCA, the Chairman noted that delays related to obtaining security advisories for U.S. visas have cost U.S. vendors some SCA business. In one instance, Fadel said the SCA needed to purchase certain technical equipment (NFI) within a relatively short

timeframe. Having chosen a U.S. supplier for the goods, the Chairman instructed a senior technical team to travel to the U.S. to inspect the equipment prior to finalizing the purchase. However, after an alleged three months wait for the visa, the Chairman said the SCA felt forced to turn to a European supplier of a similar product. The Chairman did not provide us with the specifics of the case, but it tracks with the general impression among Egyptian businesspeople that the U.S. is not a welcoming place to do business. DCM requested that in the future the Embassy be notified of such delays so that we may make inquiries.

Comment

¶10. (C) Mushrooming Chinese exports and continued strife in the Near East region boost the Suez Canal's already significant strategic importance for Egypt, the U.S., and many of the world's trading nations. The canal also holds an important place in the Egyptian psyche, and the GOE sternly dismisses any talk of privatization. If the SCA is able to expand its marketing of the canal through partnerships with other ports or countries, and complete its dredging projects, it will be well placed to enjoy further record revenues. Although SCA insiders were forecasting Chairman Fadel's likely retirement within the next year, the word now is that the Presidency has unofficially asked him to stay on for another year (they anticipate a January 2007 announcement). With revenues soaring, this is not a surprising move.
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